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TREASURY FOR SSENICH
COMMERCE FOR KMANN

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E.O. 12958: N/A
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SUBJECT: CHILE: ECONOMIC HIGHLIGHTS WEEK OF OCTOBER 27

REFS: SANTIAGO 960 AND PREVIOUS

11. (SBU) SUMMARY: This continues a series of regular updates on major developments in Chile's economy since the acceleration of global financial turmoil. October 31 is a national holiday and Chilean markets will be closed. By week's end, October 30, there was a recovery in copper prices, continued depreciation in the exchange rate, and some gains in the stock market. September saw a small drop in unemployment and a small increase in industrial production. The Chilean real estate market slowed significantly. The GOC revised upward its projected fiscal surplus. The Finance Minister called for increased regional trade liberalization. Ambassador Simons met with the current and former Central Bank governors, who were optimistic about Chile's economic health. END SUMMARY.

Copper Prices Regain Lost Ground

12. (U) Copper prices appeared to stabilize during the week. Copper closed on the London Metals Exchange at about \$2.04/pound on October 30, a gain of almost 21% from its close on October 24. CODELCO (Chile's state-owned copper company) said it would cut production at its largest mine by 10 percent by the end of 2008.

Chilean Peso Depreciates Further Against U.S. Dollar

13. (U) The exchange rate closed lower on October 30 at 676.5 Chilean Pesos to 1 U.S. Dollar (a decrease of less than 1% since its close on October 24). The currency depreciated over 124 Pesos against the Dollar in the month of October (or approximately 22%).

An Up Week For The Stock Market

14. (U) The IPSA closed at 2489.59 points on October 30, gaining about 6% on the close of October 24. The Index was down almost 10% for the month of October.

Small Decrease In Unemployment For September 2008

15. (U) The national statistics agency (INE) reported the unemployment rate fell to 7.8% for July-September 2008, although it is higher (by 0.1%) than the same period a year ago. The rate in the previous trimester (June-August 2008) was 8.2%.

Uptick In Index of Industrial Production

¶6. (U) INE also reported a small increase of 3.2% in its industrial production index for September. The index showed an increase of 1.4% for the first nine months of 2008 when compared with the same period in 2007.

Real Estate Sales Slow Dramatically

¶7. (U) Press reports indicate real estate sales have shown a marked deceleration in Chile. During the third quarter of 2008, sales dropped almost 21% in the Santiago area, compared to the same period in 2007. Outside of Santiago, sales decreased 28%. The Chilean Chamber of Construction estimates that real estate sales will fall more than 12% in 2008 when compared with their level in 2007. The Chamber claimed potential homeowners were postponing decisions to buy because of inflation.

Government Surplus More Than Expected

¶8. (U) The GOC budget director, Alberto Arenas, said October 30 that the budget surplus had reached 5.1% of GDP in the first 9 months of 2008. This figure caused the GOC to revise upward (by 0.2%) its earlier budget surplus predictions for the year to 6.9% of GDP (\$11.8 billion). Arenas confirmed, however, that government revenue fell almost 12% in real terms in the third quarter of 2008. Chile's two sovereign wealth funds accumulated a value of \$21.65 billion in September, which brought the funds rate of return to 3.5% for the first 9 months of the year (a significant decrease from the 8% reported in the first quarter of 2008).

Ministers: Region Needs Assistance, Liberalization

¶9. (U) On October 27, MERCOSUR countries met in Brasilia to discuss how to coordinate policy in reaction to the global financial crisis. Chilean Foreign Minister Alejandro Foxley (a former finance minister under President Aylwin) called for the Inter-American Development Bank and the Andean Development Corporation to assist countries in the region in combating the "negative social impact" of the crisis. Finance Minister Andres Velasco said two critical issues were confronting MERCOSUR: 1) countries in the region needed to ensure liquidity in their domestic markets, and 2) these nations also needed to forge ahead with progress on trade liberalization and integration, avoiding a return to protectionist measures.

Ambassador Meets Central Bank Chiefs

¶10. (SBU) Ambassador Simons has been engaging with Chilean economic authorities and experts to assess the impact of the international financial turmoil in Chile. He met with current Central Bank Governor Jose De Gregorio, October 29, and former Central Bank Governor (under President Lagos), and respected economist, Vittorio Corbo, October 30. Both De Gregorio and Corbo were optimistic that Chile's economy was well-placed to weather the current crisis. De Gregorio was more sanguine about the effects on the real economy (projecting growth of around 4% in 2009) than Corbo who expected a significant impact on unemployment (10-11% in 2009) and growth (1-3% in 2009). Further details will be reported septels.
SIMONS